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PAGE 01 SANTIA 01790 01 OF 04 151511Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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R 142213Z MAR 78
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 8472
INFO AMEMBASSY LIMA
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AMEMBASSY BRASILIA

LIMITED OFFICIAL USE SECTION 1 OF 4 SANTIAGO 1790

E.O. 11652: N/A
TAGS: EINV, CI
SUBJ: FOREIGN INVESTMENT IN CHILE

REF: (A) SANTIAGOS 0564, (B) SANTIAGO 1641, (C) SANTIAGO 0835

1. INTRODUCTION AND SUMMARY. EXXON'S RECENT PURCHASE OF THE LA DISPUTADA COPPER MINE (REF C) HAS BOLSTERED THE CONFIDENCE OF THE SUPPORTERS OF GOC ECONOMIC POLICIES AND PUSHED THE SUBJECT OF INVESTMENT TO THE FOREFRONT OF PUBLIC AWARENESS BOTH HERE AND ABROAD. WITH EXXON IN THE VAN IT IS BELIEVED THAT OTHERS SHOULD FOLLOW. THEREFORE, WITH ECONOMIC RECOVERY AND PRICE STABILITY NOW APPARENTLY IN HAND, THE GOC HAS TURNED ITS ATTENTION TO THE INADEQUATE LEVEL OF TOTAL INVESTMENT WITH SPECIAL ATTENTION TO THE FOREIGN COMPONENT. GOVERNMENT POLICY IS FRANKLY FAVORABLE AND SOLICITOUS OF FOREIGN, DIRECT, PRIVATE INVESTMENT. SO FAR, MINERALS INVESTMENT OVERWHELMINGLY PREDOMINATES, BUT THE FLOWS TO THIS SECTOR HAVE AND WILL CONTINUE TO BE SLOW. WHILE ALL THE RETURNS ARE

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PAGE 02 SANTIA 01790 01 OF 04 151511Z

NOT YET IN, THERE IS AMPLE EVIDENCE THAT FOREIGN INVESTMENT IS GROWING IN OTHER SECTORS. INDEED, IT MAY WELL BE THAT THE ACCUMULATION OF SMALLER, NON-MINERALS PROJECTS , NOW IN THE PLANNING STAGE, AND PARTICULARLY THOSE IN MANUFACTURING THE SECTOR, WILL HAVE THE MOST TELLING IMPACT ON CHILE'S GROWTH AND DEVELOPMENT. THERE ARE SERIOUS PROBLEMS IN ANALYZING THE DATA. IT IS CLEAR, HOWEVER, THAT THE U.S. IS THE LARGES

SINGLE INVESTOR COUNTRY, ACCOUNTING FOR 68 PERCENT OF THE TOTAL CAPITAL TRANSFERS RECORDED DURING THE LAST THREE YEARS. MOREOVER, WE ESTIMATE THE VALUE OF STOCK OF U.S. INVESTMENT TO BE ROUGHTLY \$497 MILLION, MORE THAN TWICE THE MOST RECENTLY PUBLISHED FIGURE OF THE SURVEY OF CURRENT BUSINESS. END INTRODUCTION AND SUMMARY.

2. COMMITMENT TO INVESTMENT. WITH ONCE-CRITICAL INFLATION AND BALANCE OF PAYMENTS PROBLEMS UNDER CONTROL, NET GROWTH AND EMPLOYMENT ARE BECOMING CENTRAL GOALS OF THE REGIME'S ECONOMIC POLICY, IN WHICH PRIVATE INVESTMENT, DOMESTIC AND FOREIGN, IS A KEY. GIVEN CHILE'S RELATIVELY LOW PER CAPITA INCOME AND HISTORICALLY REPPRESSED MARGINAL PROPENSITY TO SAVE, FOREIGN INVESTMENT IS ESPECIALLY IMPORTANT. THE GOC ECONOMIC TECNOCRATS ARE PERSUADED THAT THEY CAN NOT ONLY CREATE THE CONDITIONS CONDUCIVE TO INVESTMENT, BUT THAT THEY CAN DELIVER THE CORRECT COMBINATION OF INCREASING AGGREGATE DEMAND TOGETHER WITH INVESTMENT THAT WILL PRODUCE A CONTINUED, NON-INFLATIONARY HIGH RATE OF ECONOMIC GROWTH. FURTHER, THEORETICALLY, NET GROWTH BEYOND THE CAPACITY IDLED IN THE 1974-76 DEPRESSION, WILL PROVIDE THE JOBS NECESSARY TO REDUCE CHILE'S STILL HIGH OFFICIAL UNEMPLOYMENT (13.2 PERCENT) AS WELL AS PROVIDE PRODUCTION INCREASES LARGE ENOUGH TO ALLOW FOR SOME INCOME REDISTRIBUTION AT NO COST TO A LARGE MIDDLE CLASS. THE INFLOW OF FOREIGN CAPITAL IS EXPECTED TO INCREASE WORKER PRODUCTIVITY LIMITED OFFICIAL USE

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PAGE 03 SANTIA 01790 01 OF 04 151511Z

RAISING THE CAPITAL TO LABOR RATIO. HENCE REAL WAGES WILL RISE. MOREOVER, INCREASED COMPETITION WILL DRIVE PRICES DOWN, DECREASING THE RETURN TO CAPITAL AND THEREBY ATTACKING INFLATION AND REDISTRIBUTING INCOME IN FAVOR OF LABOR.

3. INVESTMENT: A WEAK PERFORMANCE. THE RATE OF TOTAL INVESTMENT HAS FALLEN FAR SHORT OF THE 20 PERCENT OF GDP COMMON ELSEWHERE IN LATIN AMERICA AND CONSIDERED NECESSARY HERE. HISTORICALLY, CHILE HAS ALWAYS HAD RELATIVELY LOW RATES OF INVESTMENT AND GROWTH, AVERAGING 15-18 PERCENT AND 3.5 PERCENT RESPECTIVELY IN THE 1960S. INVESTMENT HAS FALLEN TO AN EVEN SMALLER PERCENTAGE OF GDP IN RECENT YEARS. TOTAL CAPITAL FORMATION IN 1976 WAS ONLY 9.8 PERCENT OF GDP: IN 1977 IT WAS 12 PERCENT, BUT REAL GROWTH WAS 8.6 PERCENT.

4. WITH A LOW RATE OF DOMESTIC CAPITAL FORMATION, THE GOC HAS BEEN DETERMINED TO CAPTURE A LARGER SHARE OF FOREIGN SAVINGS. IN THE PERIOD 1975-77, 266 PRIVATE FOREIGN INVESTMENT PROJECTS WERE APPROVED BY THE GOC FOREIGN INVESTMENT COMMITTEE, (FIC) FOR A TOTAL AMOUNT OF \$2.4 BILLION. THIS AMOUNT REPRESENTS THE MAXIMUM

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PAGE 01 SANTIA 01790 02 OF 04 151508Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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LIMITED OFFICIAL USE SECTION 2 OF 4 SANTIAGO 1790

AMOUNT ALL INVESTORS ARE AUTHORIZED TO INVEST OVER THE TERM
OF THEIR AGREEMENTS. IN CONTRAST, THE SUMS ACTUALLY INVESTED
(TRANSFERRED) TO DATE REPRESENT ONLY 13.2 PERCENT OF TOTAL
AUTHORIZED AMOUNT, OR REOUGHLY \$316.3 MILLION.

5. FOREIGN INVESTOR INTEREST UP SHARPLY. THE RELATIVELY
SMALL ACTUAL INFLOWS SHOULD NOT MASK A RECENT AND QUITE DRAMATIC
AWAKENING IN INVESTOR INTEREST. BETWEEN MARCH AND DECEMBER
1977, THE NUMBER OF NEW NON-MINERALS PROJECTS APPROVED BY THE
FOREIGN INVESTMENT COMMITTEE ALMOST DOUBLED, FOR AN AMOUNT NEARLY
EQUAL TO THAT WHICH HAD BEEN REGISTERED IN THE PREVIOUS TWO
AND A HALF YEARS. THUS:

(IN MILLIONS)
NUMBER OF NEW APPROVED
PROJECTS AMOUNT

DATE

OCTOBER 1974 - MARCH 1977 87 65.5
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PAGE 02 SANTIA 01790 02 OF 04 151508Z

MARCH - DECEMBER 1977 101 62.3

TOTALS 188 127.8

THE NUMBER OF PROJECTS SHOWN ABOVE (188 DOES NOT EQUAL THE 266 MENTIONED IN PARAGRAPH FIVE BECAUSE THE LATTER FIGURE INCLUDES 72 RE-REGISTRATIONS OF EXISTING INVESTMENTS FALLING UNDER A PREVIOUS LAW AND SIX NEW MINING PROJECTS WHICH ARE CONSIDERED SEPARATELY.

6. TABULATION OF FOREIGN INVESTMENT IN CHILE. APPROVALS MUST BE DISTINGUISHED FROM ACTUAL INFLOWS.IT IS IMPOSSIBLE TO QUANTIFY PRECISELY HOW MUCH ACTUAL INVESTMENT HAS TAKEN PLACE. CONVENIENTLY, HOWEVER, INFORMATION FROM THE FIC ON FOREIGN INVESTMENT PROJECTS IS CLASSIFIABLE INTO TWO CATGORIES:
1) INVESTMENT PROJECTS 70 PERCENT OR MORE COMPLETE, AND 2) THOSE FOR WHICH ONLY 10 PERCENT OFR LESS OF THE CAPITAL HAS BEEN TRANSFERRED.

7. FOREIGN INVESTMENT SCHEDULE 1975-1977
(THOUSANDS OF U.S. DOLLARAS '000)

1	2	3	4	5	6	7	8	9
		PRO- JECTS 70 PER		PRO- JECTS 10 PER		TOTAL		PER
TOTAL FIC NO.OF	CENT NO.OF	CENT NO.OF	REAL- APPROVED	PRO- REAL- COUNT	PRO- REAL- COUNT	PRO- REAL- COUNT	PRO- REAL- COUNT	PRO- REAL- COUNT

ARGTNA 335 (6) 146 (3) - - 146 .046
AUS
TRIA 223 (3) 101 (2) - - 101 .032
BLGIUM 2,150 (3) 735 (2) 110 (1) 845 .267
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PAGE 03 SANTIA 01790 02 OF 04 151508Z

BLVIA 133 (1) - - 13 (1) 13 .004
BRAZIL 13,403 (7) 6,232 (6) 450 (1) 6,682 2.11
CANADA 357,157 (7) 52 (1) 25,708 (6) 35,760 11.31
CLMBIA 50 (1) - - 5 (1) 5 .001
C.RICA 82 (1) 57 (1) - - 57 .018
DNMARK 50 (1) 35 (1) - - 35 .011
ECUADR 100 (1) 70 (1) - - 70 .022
FRANCE 8,548 (10) 5,970 (9) - - 5,970 1.89
GERMANY 50,251 (24) 8,229 (17) 3,801 (2) 12,030 3.80
HLLAND 5,103 (3) 939 (2) 376 (1) 1,315 .416
ITALY 734 (3) 93 (1) 55 (1) 148 .047
JAPAN 1,715 (3) 1,200 (3) - - 1,200 .379
LXBURG 890 (2) 623 (2) - - 623 .197
MEXICO 1,856 (1) - - 186 (1) 186 .059
NORWAY 75 (1) - - 7 (1) 7 .002
PERU 47 (2) 5 (1) - - 5 .001

ROMANIA	3,140	(1)	2,198	(1)	- -	2,198	.694
SPAIN	9,619	(13)	3,723	(9)	100	(1)	3,823 1.21
SWEDEN	1,517	(4)	1,023	(3)	- -	1,023	.324
SWITZERLAND	18,078	(20)	10,100	(8)	236	(6)	10,336 3.27
U.K.	18,570	(25)	9,197	(11)	546	(14)	9,725 3.07
URUGUAY	324	(2)	- -	30	(1)	30	.009
VENEZUELA	10,438	(9)	3,924	(5)	411	(2)	4,335 1.37
U.S.	1,879,508	(94)	31,649	(55)	182,859	(21)	214,508 67.82
PANAMA	34,097	(16)	1,769	(4)	2,941	(6)	4,710 1.49
UNK	4,070	(2)	- -	402	(1)	402	.127

TOTALS 2,422,263 (266) 88,054 (148) 228,236 (68) 316,290 100.00

8. PROBLEMS OF INTERPRETATION. THE FIRST AND MOST IMPORTANT IS THAT WE HAVE NO BASIS OF COMPARISON WITH PREVIOUS PERIODS AND THEREFORE CANNOT CALCULATE A RATE OF CHANGE. THERE IS NO EVIDENCE OF NEW FOREIGN INVESTMENT UNDER THE ALLENDE REGIME, NOR IN THE TWO YEARS AFTER ITS FALL. INDEED, MANY ARGUE THAT THERE WAS REAL DISINVESTMENT IN THE PERIOD 1969-74. IN ANY CASE, THERE ARE NO RELIABLE RECORDS. FURTHER, THE FLOW LIMITED OFFICIAL USE

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PAGE 04 SANTIA 01790 02 OF 04 151508Z

FIGURES SHOWN IN THE ABOVE TABLE FOR THE THREE-YEAR PERIOD 1975-1977 ARE TAKEN TOGETHER; WE ARE UNABLE TO DISAGGREGATE THEM BY YEARS IN ORDER TO IDENTIFY A TREND. IT IS ASSUMED THAT THE TREND, AT LEAST FOR INVESTMENT INTENDED FOR THE DOMESTIC MARKET, IS INCREASING IN PROPORTION TO THE ECONOMIC RECOVERY MANIFEST SINCE LATE 1976, AN ASSUMPTION SUSTAINED BY THE RECENT INCREASE IN THE NUMBER OF FIC APPROVALS. OTHER PROBLEMS OF COMPUTATION AND INTERPRETATION INCLUDE:

9. RETAINED EARNINGS AND LOANS. THE INFLOWS OF CAPITAL TRANSFERS FROM ABROAD SHOWN IN THE TABLE COMPRISES MOST OF THE TOTAL NEW FOREIGN INVESTMENT. FOR THOSE FIRMS ALREADY RESIDENT IN CHILE, RETAINED EARNINGS WOULD BE ANOTHER FORM OF INVESTMENT, NOT SHOWN IN THESE FIGURES. HISTORICALLY, FOREIGN FIRMS, LACKING A DOMESTIC CAPITAL MARKET, AND DISTRUSTFUL BOTH OF IMPORTING DOLLARS TO BE CONVERTED INTO INFLATIONARY LOCAL CURRENCY, AND OF PAST LIMITS ON PROFIT AND CAPITAL REPATRIATION, RELIED ON THIS METHOD. NO FIGURES ARE AVAILABLE AT ALL ON THIS IMPORTANT SOURCE OF INVESTMENT NOR FOR OUTSTANDING

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PAGE 01 SANTIA 01790 03 OF 04 151553Z
ACTION ARA-14

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AMEMBASSY BRASILIA

LIMITED OFFICIAL USE SECTION 3 OF 4 SANTIAGO 1790

SHORT-TERM LOANS TO THE CHILEAN AFFILIATES OF FOREIGN FIRMS.

10. PURCHASE OF EXISTING ASSETS. MANY INVESTMENT PROJECTS, PARTICULARLY THE LARGER ONES, ARE FOR THE PURCHASE OF AN EXISTING FIRM. RECENT INVESTMENTS BY EXXON AND GOODYEAR ARE CASES IN POINT (SANTIAGO 0564 AND SANTIAGO 1641). WHILE THESE ARE WELCOME CONTRIBUTIONS WITH POSITIVE BALANCE OF PAYMENTS EFFECTS, THIS TYPE OF INVESTMENT IS NOT RELEVANT TO CHILE'S INTERNAL GROWTH AND DEVELOPMENT UNTIL THE ENTERPRISES INSTALL ADDITIONAL CAPACITY AND/OR THE GOC AND CHILEANS CREATE NEW CAPITAL ASSETS WITH THE PURCHASE MONIES RECEIVED.

11. ROLE OF INVESTMENT CLIMATE AND GOVERNMENTAL INCENTIVES. THAT FOREIGN INVESTOR INTEREST HAS BEEN PROVOKED IS CLEAR. WHETHER THIS IS A CONSEQUENCE OF IMPROVED ECONOMIC CONDITIONS IN THE DEVELOPED COUNTRIES IN GENERAL AND IN CHILE IN PARTICULAR OR A RESULT OF FAVORABLE CONDITIONS DELIBERATELY INDUCED BY THE GOC IS IMPOSSIBLE TO DETERMINE. WITH RESPECT TO THE LATTER, HOWEVER, IT IS CLEAR THAT WHILE CHILE DOES NOT ENJOY THE
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PAGE 02 SANTIA 01790 03 OF 04 151553Z

BENEFIT OF OPIC PROGRAMS, ITS FAVORABLE INVESTMENT CLIMATE IS FURTHERED BY A LIBERAL FOREIGN INVESTMENT STATUE. THE CUT-OFF DATE OF MARCH 1977 (PARA 4) AFTER WHICH INVESTMENT APPLICATIONS GREW CONSIDERABLY, COINCIDES WITH THE PROMULGATION OF THE REVISED INVESTMENT LAW. AT LEAST AS ACCOMMODATIVE TO INVESTORS AS ANY IN LATIN AMERICA, ITS PRINCIPAL FEATURES INCLUDE: GUARANTEED EQUAL TREATMENT WITH LOCAL ENTERPRISES; FIXED, NON-DISCRIMINATORY EXCHANGE RATE, PRESCRIBED TAXES

FIXED FOR TEN YEARS; IMMEDIATE REPATRIATION OF PROFITS AND CAPITAL IN THREE YEARS AND DUTY-FREE ENTRY OF CAPITAL GOODS.

12. DISPROPORTIONATE INVESTMENT IN MINERALS SECTOR. ANOTHER PROBLEM NOT EVIDENT FROM THE FIGURES IS THE HEAVY WEIGHT OF MINERALS INVESTMENT. IN 1977 SIX MAJOR MINERALS PROJECTS WERE APPROVED BY THE FIC FOR A TOTAL AMOUNT OF \$2.2 BILLION. OF THIS AMOUNT, EXXON HAS ACTUALLY TRANSFERRED TO DATE \$87 OF \$110 MILLION. THE OTHER FIVE PROJECTS ARE STILL IN THE EXPLORATION-FEASIBILITY STAGE, AND CUMULATIVELY NOT MORE THAN \$20 MILLION IN INVESTMENT HAS ACTUALLY TAKEN PLACE. THIS DISPROPORTION DISTORTS THE INVESTMENT PICTURE. WHILE INVESTMENT PROJECTS HAVE BEEN APPROVED FOR A TOTAL AMOUNT OF \$2.4 BILLION, ALL BUT \$222 MILLION IS ACCOUNTED FOR BY SIX LARGE MINING PROJECTS. OF THE \$2.2 BILLION IN APPROVED MINING PROJECTS, LESS THAN \$107 MILLION HAS ACTUALLY BEEN TRANSFERRED, INCLUDING THE \$87 MILLION PAYMENT BY EXXON FOR LA DISPUTADA. IN OTHER WORDS, MORE THAN 90 PERCENT OF APPROVED NEW INVESTMENT IS IN LARGE-SCALE EXTRACTIVE INDUSTRY. THAT LARGE-SCALE MINING PREDOMINATES REFLECTS CHILE'S COMPARATIVE ADVANTAGE IN THIS AREA. CONSERVATIVE ESTIMATES CLAIM THAT CHILE HAS AS MUCH AS 25 PERCENT OF THE WORLD'S KNOWN COPPER ORE RESERVES, AND A LARGE PROPORTION IS OF VERY HIGH GRADE. MOREOVER, CHILE IS A RELATIVELY LOW-COST PRODUCER AT APPROXIMATELY .51 PER LB. AS COMPARED TO THE U.S. AT .67 PER LB.

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PAGE 03 SANTIA 01790 03 OF 04 151553Z

13. NON-MINERALS INVESTMENT. FOREIGN INVESTMENT IN OTHER AREAS, PARTICULARLY IN THE MANUFACTURING SECTOR, PRESENTS A MORE COMPLICATED PICTURE. AS NOTED ABOVE ONLY \$222 MILLION IN ACTUAL FOREIGN INVESTMENT HAS TAKEN PLACE IN THE NON-MINERALS SECTOR DURING THE 1975-77 PERIOD, 80 PERCENT OF WHICH HAS BEEN IN MANUFACTURING. THE REASONS FOR THE SLUGGISH PACE OF INVESTMENT OUTSIDE THE MINERALS AREA ARE VARIOUS. THE MOST OBVIOUS IS THAT UNTIL RECENTLY, THE DEPRESSED ECONOMIES OF THE DEVELOPED COUNTRIES (I.E. INVESTORS) TOGETHER WITH THE EVEN MORE DEPRESSED CHILEAN ECONOMY, WERE NOT CONDUCIVE TO FOREIGN INVESTMENT. MOREOVER, CHILE'S WITHDRAWAL FROM THE ANDEAN PACT HAD THE ADVANTAGE OF FREEING CHILE FROM THE PACT'S RESTRICTIONS ON FOREIGN INVESTMENT, BUT ALSO RESULTED IN THE LOSS OF PREFERENTIAL ACCESS TO A LARGER AND HIGHLY PROTECTED MARKET. ALSO, THE GOC'S POLICY OF PRECIPITOUS TARIFF REDUCTIONS AND CONSEQUENT INCREASE IN IMPORT COMPETITION PARTICULARLY WORRIES POTENTIAL INVESTORS IN THE MANUFACTURING AREA. INsofar AS FOREIGN INVESTMENT DEPENDS ON LOCAL FINANCING AND CONSTRUCTION, THIS HAS BEEN HAMPERED BY EXHORBITANT INTEREST RATES. THE SMALL MAXIMUM PERMISSIBLE LAND HOLDING HAS INHIBITED INVESTMENT IN AGROBUSINESS. AN OVERVALUED CHILEAN PESON MEANS THAT AN INVESTMENT DOLLAR

WILL NOT BUT AS MUCH IN LOCAL TERMS. OVERALL, A TIGHT,
ANTI-INFLATIONARY FISCAL POLICY, DRASTICALLY REDUCING PUBLIC
INVESTMENT IN INFRASTRUCTURE, HAS AFFECTED EVERY SECTOR.

14. INVESTMENT IN MINERALS VS. MANUFACTURE. LOOKING AT

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PAGE 01 SANTIA 01790 04 OF 04 151715Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
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LIMITED OFFICIAL USE SECTION 4 OF 4 SANTIAGOS 1790

AGGREGATE FOREIGN INVESTMENT FIGURES AND RELATING THEM TO THE
CAPITAL DEVELOPMENT RATION DOES NOT TELL THE WHOLE STORY.
THERE ARE QUALITATIVE DIFFERENCES BETWEEN THE DIFFERENT KINDS
OF INVESTMENT. MINERALS INVESTORS IN FOR TWENTY YEARS WITH
A HIGH CAPITAL EXPOSURE PLACE GREAT WEIGHT ON POLITICAL
STABILITY. WITH VIRTUALLY ALL THEIR PRODUCT EXPORTED, THEIR
INVESTMENT DECISION IS LESS A VOTE OF CONFIDENCE IN THE FUTURE
OF CHILEAN DOMESTIC ECONOMIC PROSPERITY THAN IT IS FOR LONG-TERM
WORLD COMMODITY PRICES. MOREOVER, MINERAL EXPORTS ARE NOT AFFECTED
BY
GOC TARIFF POLICY AND IMPORT COMPETITION. THE NON-MINERALS
INVESTOR HAS DIFFERENT CONCERNS AND OFFERS DIFFERENT BENEFITS
TO CHILE. WHILE ATTENTION HAS BEEN FOCUSED ON THE BIG MINING
PROJECTS, IT MAY WELL BE THAT THE ACCUMULATION OF SMALLER
PROJECTS, PARTICULARLY IN THE MANUFACTURING SECTOR, WILL HAVE
A GREATER IMPACT ON GROWTH AND DEVELOPMENT. MINERALS PROJECTS
ARE CAPITAL INTENSIVE WITH RELATIVELY FEW FORWARD AND BACKWARD
LINKAGES TO THE LOCAL ECONOMY. GREATER EXPORT EARNINGS AND
STATE INCOME ARE THE EXPECTED BENEFIT FROM INCREASED INVESTMENT

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PAGE 02 SANTIA 01790 04 OF 04 151715Z

IN THE MINERALS SECTOR. NECESSARY AS THESE ARE, EMPLOYMENT, SMALL-SCALE TECHNOLOGY TRANSFER, MANAGEMENT SKILLS, LOWER PRICES, INCREASES IN REAL WAGES AND LINKAGE TO DOMESTIC INDUSTRY ARE ALSO CRUCIAL TO THE DEVELOPMENT PROCESS. ALL OF THESE ADVANTAGES ARE MORE LIKELY TO BE DERIVED FROM FOREIGN INVESTMENTS IN SMALL MANUFACTURING AND AGROBUSINESS VENTURES THAN IN MINING.

15. PREDOMINANT POSITION OF U.S. INVESTMENT IN CHILE. OF THE 266 NEW PROJECTS APPROVED BY THE EPJNRLY, OF THE \$316 MILLION FLOW OF ACTUAL REALIZED INVESTMENT, U.S. FIRMS CONTRIBUTED \$214 MILLION OR 68 PERCENT OF THE TOTAL. OF THE STOCK (AS CONTRASTED WITH THE FLOW) OF U.S. INVESTMENT, THE SURVEY OF CURRENT BUSINESS ESTIMATES THAT DIRECT U.S. INVESTMENT IN CHILE IN 1975 WAS \$179 MILLION. THE MAY 20, 1977 LATIN AMERICAN REPORT ESTIMATED THE BOOK VALUE OF U.S. INVESTMENT IN CHILE TO BE \$299 MILLION FOR THAT SAME YEAR. THE LATTER INCLUDED U.S. INVESTMENT ORIGINATING FROM THIRD COUNTRIES, PRINCIPALLY PANAMA AND SWITZERLAND AND IS THEREFORE MORE USEFUL. THE THREE LARGEST U.S. INVESTMENTS IN CHILE ARE HELD BY SUCH FOREIGN BASED SUBSIDIARIES OF U.S. PARENT CORPORATIONS. TO THE LATTER ESTIMATE OF \$299 MILLION OF CAPITAL STOCK IN PLACE, WE WOULD ADD THAT PART OF THE FLOW OF REALIZED INVESTMENT FOR THE 1975-77 PERIOD ATTRIBUTABLE TO THE U.S. IN 1976 AND 1977, OR \$198 MILLION, ARRIVING AT A TOTAL U.S. INVESTMENT EXPOSURE IN CHILE OF \$497 MILLION. THIS EXPOSURE IS INCREASING. A PORPORTIONAL ANALYSIS BASED ON APPROVED APPLICATIONS SHOWS THAT IN THE PERIOD AUGUST 1974-FEBRUARY 1977 \$16.3 MILLION IN DIRECT U.S. INVESTMENT ACTUALLY TOOK PLACE. IN CONTRAST, \$197.7 MILLION WAS INVESTED IN THE LAST TEN MONTHS OF 1977.

16. CONCLUSIONS. NEW INVESTMENT APPLICATIONS ARE UP SHARPLY TO A TOTAL APPROVED AMOUNT (AS DISTINGUISHED FROM ACTUAL)
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PAGE 03 SANTIA 01790 04 OF 04 151715Z

OF \$2.4 BILLION. OF THIS TOTAL \$316.2 MILLION (13 PERCENT) HAS ACTUALLY BEEN INVESTED TO DATE. OF THE ACTUAL AMOUNT INVESTED, \$107 MILLION (33 PERCENT) HAS BEEN IN THE MINERALS SECTOR AND OF THIS, \$87 MILLION (81 PERCENT) IS ACCOUNTED FOR BY A SINGLE INVESTMENT -- THAT OF EXXON. IF PLEDGED INVESTMENT HOLDS TRUE, THE MINERALS SECTOR WILL OVERWHELM ALL OTHERS AS DID THE PREVIOUS GENERATION OF MINERALS INVESTMENTS BEFORE IT WAS NATIONALIZED.

17. BECAUSE, HOWEVER, MINERALS INVESTMENT REQUIRES A LONG LEAD TIME (5-8 YEARS) BEFORE SUBSTANTIAL ACTUAL INVESTMENT TAKES PLACE, AND ALSO BECAUSE SOME OF IT SIMPLY MAY NOT PAN OUT, THE MORE IMMEDIATELY RESPONSIVE INVESTMENT SECTORS BECOME MORE SIGNIFICANT. ALTHOUGH THE LEVEL OF NON-MINERALS INVESTMENT HAS BEEN RELATIVELY LOW --- \$222 MILLION IN THE 1975-77 PERIOD, A SUFFICIENT NUMBER OF NEW MANUFACTURING PROJECTS ARE NOW IN THE POSITIVE PLANNING STAGE TO LEND IMPORTANCE TO THIS SECTOR. PARALLEL WITH THE INCREASE IN PRIVATE BANK LENDING IN CHILE (SANTIAGOS 835), THE STEADILY IMPROVING CHILEAN ECONOMY SHOULD ATTRACT AN INCREASING NUMBER OF NON-MINERAL FOREIGN INVESTMENT PROJECTS, ALTHOUGH AS A SLOWER RATE OF GROWTH THAN THE SPURT IN THE LAST SEMESTER OF 1977. MINERALS INVESTMENT WILL NEVERTHELESS CONTINUE TO BE THE LARGEST SINGLE ITEM; ITS SHARE SHOULD BEGIN TO DECLINE WITH THE DISPOSITION OF THE MORE ATTRACTIVE MINING PROPERTIES. AMERICAN INVESTMENT WILL PREDOMINATE IN BOTH SECTORS. LANDAU

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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, FOREIGN INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SANTIA01790
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Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 SANTIAGO 564, 78 SANTIAGO 1641, 78 SANTIAGO 835
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3339449
Secure: OPEN
Status: NATIVE
Subject: FOREIGN INVESTMENT IN CHILE
TAGS: EINV, CI
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/48dff5c7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014